



January 14, 2004

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DANA M. SMITH
Executive Officer

TO: Local Agency Formation Commission

FROM: Executive Officer
Assistant Executive Officer

SUBJECT: Update on Proposed Revisions to: (1) County Contract for
LAFCO Services and (2) Conrad and Associates, LLP
Contract for Accounting Services

Introduction

This report provides your Commission with a status update on two contracts for services that are currently undergoing proposed revisions. Based on the recommendations of LAFCO's audit completed in February 2003, and at the direction of the LAFCO Executive Committee, staff is in the process of revising our existing contract for services with the County. The proposed revisions will separate LAFCO from the County's general accounting program and allow for an independent accounting system for LAFCO operations. Additional revisions to the County contract will eliminate other County services that are no longer needed by LAFCO or which can be absorbed by existing LAFCO personnel. Staff is also working with our bookkeeping consultant, Conrad and Associates, LLP, to amend their existing scope of services to fully support LAFCO's proposed transition to an independent accounting system.

Attached, for your review, is a working draft of the amended County contract for services (please see Exhibit A). Once the draft contract is completed, it will be reviewed by the County. Staff anticipates returning to your Commission in February for final review and approval of: (1) a revised County services contract, and (2) a new contract with Conrad and Associates, LLP for expanded bookkeeping responsibilities.

Background

Since July 1, 2001, when State law required that LAFCOs throughout California become independent public agencies, Orange County LAFCO has chosen to contract directly with the County for facilities and specific services. A County agreement is currently in place which provides LAFCO with office space and various services, including general accounting, insurance coverage, purchasing, investments, employee benefits administration, payroll, petty cash, and check writing. In addition, LAFCO currently contracts with Conrad and Associates, LLP, an independent public accounting firm, for our bookkeeping responsibilities.

Recommendation for Independent Accounting System for LAFCO

In February, 2003, LAFCO's first independent audit was completed by the certified public accounting firm of Moreland & Associates. Included in the audit's findings was a recommendation that LAFCO consider transitioning to an independent accounting system. This recommendation was based primarily on the small size of LAFCO's staff and budget. Given LAFCO's size (seven full-time employees) in comparison to the County's approximately 18,000 employees, the auditors concluded that the County's budget reports were unable to provide the detailed information and customized cost tracking data that would be possible for LAFCO through a separate accounting system.

In August 2003, staff met with the LAFCO Executive Committee to discuss the possibility of transitioning to an independent accounting system as well as other potential changes to LAFCO's existing County services contract. The Executive Committee provided direction to staff to pursue the suggested contract revisions. Attachment B to this staff report includes an initial response from the County CEO regarding LAFCO's request for a change in County services. We continue to work with County staff in finalizing the draft agreement.

Summary of Contract Changes

Exhibit A to this staff report provides your Commission with an "underline/strikeout" version of a revised County services agreement with LAFCO. As indicated earlier in this report, this document remains a "work in progress" and has not been fully reviewed by the County. Nonetheless, it

provides your Commission with a roadmap of how LAFCO staff is proposing to modify LAFCO's contract services with the County and offers an opportunity for early Commissioner input in the revision process.

Proposed County Contract Revisions

Key revisions to the County services agreement include the following components.

- Redefining the service relationship between the County and LAFCO:
 - Terminate banking, investment, accounting and collection services with County Treasurer-Tax Collector.
 - Terminate purchasing and real estate services with County CEO/Purchasing & Real Estate.
 - Modify services agreement with County Auditor-Controller to retain payroll processing but eliminate general accounting services.
 - Incorporate new services agreement with CEO/Office of Information and Technology to provide LAFCO with technical support for technology-related systems.
- Clearly define the method and procedure for LAFCO compensating County for service costs.
- Modify the current methodology for assessing the cost of LAFCO's office space from a "building depreciation cost" to a lease arrangement between LAFCO and the County.

Outstanding Issues

LAFCO currently compensates the County for use of its office space based on a "building depreciation cost" formula. The County has requested that this arrangement be changed to a lease arrangement between LAFCO and the County. LAFCO staff met with CEO/Real Estate staff on December 18, 2003 to discuss potential lease options. As of this date, the County has not completed an initial lease proposal for LAFCO review. We anticipate including the lease provisions as part of the larger County services contract which will be presented to your Commission in February.

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Next Steps

Staff will continue to work with County personnel to complete a final draft of the revised County services contract. Once a draft is complete, the document will be forwarded to the County CEO for review prior to presentation to your Commission on February 11, 2004. In addition, staff will continue working with our accounting consultant, Conrad and Associates, LLP, on a revised scope to ensure that their services will fully support staff in implementing an independent accounting system for LAFCO. The revised contract for Conrad and Associates, LLP will also be forwarded to your Commission for consideration at your February meeting.

Should both contracts be approved by your Commission in February, staff will implement the independent accounting system for LAFCO effective March 1, 2004.

Recommendation

Receive and file status report.

Respectfully submitted,

DANA M. SMITH

BOB ALDRICH

Attachments

- A. Working Draft – Revised County Contract for Services*
- B. Letter from County CEO – October 28, 2003*

